

## **SUBCOMMITTEE NO. 2**

## **Agenda**

Byron Sher, Chair  
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Upon Adjournment of Session  
Room 112

### **PART 2**

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## 3360 Energy Resources Conservation & Development Commission

The commission, commonly referred to as the California Energy Commission (CEC), is responsible for:

- Siting power plants,
- Conducting energy-related research and development,
- Forecasting energy supply and demand, and
- Implementing conservation strategies.

As displayed in Table 1, the budget proposes expenditures of about \$247 million, a reduction of \$148 million (37 percent) relative to the current year.

The commission also expects to have loan repayments of \$3.6 million, up from \$2.9 million in the current year.

**Table 1**  
**California Energy Commission, Expenditures by Program**  
**2002-03**  
*(dollars in thousands)*

	2000-01	2001-02	2002-03	Amount	Percent
Regulatory and Planning	\$35,155	\$35,638	\$30,059	-\$5,579	-16 %
Energy Resources Conservation	265,579	145,957	24,752	-121,205	-83
Development	306,678	213,356	192,413	-20,943	-10
<b>Totals</b>	<b>\$607,412</b>	<b>\$394,951</b>	<b>\$247,224</b>	<b>-\$147,727</b>	<b>-37%</b>

As displayed in Table 2, the commission is funded by a combination of special fund revenues, reimbursements and General Fund revenues. Specifically:

- *Special funds account* for about \$227 million (94 percent) of the commission's budget.
- *Reimbursements account* for over \$10 million (about 4 percent) of the total.
- *The General Fund accounts* for nearly \$6 million (about 2 percent) of the CEC's budget. General Fund revenues are allocated to the commission's siting and transportation programs.

**Table 2**  
**California Energy Commission, Funding Sources**  
**2002-03**  
*(dollars in thousands)*

	Amount	Percent
General Fund	\$5,722	2%
Renewable Resource Trust Fund	93,800	38%
Public Interest Research, Development & Demonstration Program Fund	71,515	29%
Energy Resources Programs Account	40,550	17%
Other Special Funds	21,732	9%
Reimbursements	10,320	4%
<b>Total</b>	<b>\$243,639</b>	

## Budget Issues

The Legislative Analyst's Office recommends the following:

1. Reduce the commission's General Fund appropriation and backfill with a higher appropriation from the Energy Resources Programs Account (ERPA).
2. Shift funding for the licensing program from the General Fund to special funds.

The recommendations are detailed below.

### ***1. Reduce the General Fund Appropriation***

As displayed in Table 2, the commission is almost exclusively funded with special fund revenue. The ERPA fund provides nearly 20 percent of the commission's budget. The charge is set at .0002 cents per kilowatt-hour of electricity consumed and generates \$46 million per year. The commission estimates that the average household pays \$5 per year for the charge.

The revenue estimates for ERPA funds are based on the commission's forecast for electricity usage. When it put the budget together, the CEC estimated that taxable electricity usage would remain at current-year levels. The Analyst's Office believes that energy use will rise by between 2 percent and 4 percent. For purposes of budget planning, it suggests assuming that ERPA revenues will rise by 2 percent (an increase of \$900,000). The Analyst's estimate accounts for the likely impact of conservation measures.

***The Analyst recommends*** that the subcommittee: a) adopt the higher ERPA revenue estimate; b) delete General Fund support for the siting program by \$900,000; and c) increase the ERPA appropriation for the siting program by an equivalent amount.

**Commission response.** The CEC staff acknowledge that electricity consumption in California is expected to experience moderate growth in calendar year 2002 and beyond. However, it identifies two reasons for maintaining existing funding:

- *Revenue Volatility Makes Any Forecast Suspect.* Given the changing electricity market, it is hard for the CEC to be confident in its electricity forecast. Many factors could influence usage. For example, the California Power Authority recently announced its goal to offset all growth in electricity demand through additional energy conservation measures. Additional energy conservation measures could undermine the LAO's proposed increase in revenues.
- *The CEC Wants a Higher Reserve than Proposed by the Governor.* According to the CEC, "If revenues are higher than the Governor's Budget projection, then they should be maintained in the fund to provide a prudent reserve (as opposed to offsetting General Funds)... The Governor's Budget proposes only a \$929,000 or 2.1% reserve next fiscal year. If revenues increase 2 percent, the additional \$900,000 could be added to the reserve providing a \$1,829 balance or 4 percent reserve."

## **2. Siting Issues and General Fund Support**

The commission must approve the siting of most power plant facilities. The number of applications received by the commission can vary significantly from year to year. For example, the commission received ten and 36 applications in the last two years, respectively. It expects to receive 15 for the year ending June 30, 2002. In the budget year, the commission assumes it will receive ten applications.

The commission expects to spend about \$19 million on siting issues in the budget year. Most of these costs are financed with special fund money. After accounting for the reduction recommended in the first discussion item, the General Fund would provide funding for over \$4.6 million.

Under current law, the CEC:

- Levies a fee on Notice of Intentions (NOI). The fee is on all persons applying for certification of a thermal power site or facility, and is set at one-cent per kilowatt of net electric capacity. The CEC has not received any NOI filings in many years and does not anticipate receiving any in the near future.
- May seek cost reimbursement for its actual CEQA-related costs from applicants who file for a Small Power Plant Exemption (SPPE). It does not anticipate receiving any SPPE filings in the near future.

The Governor proposes to repeal the existing fee structure and impose a flat fee of \$25,000 for each application for certification of a site or related facility. The budget assumes revenues of \$250,000 from the new fee structure. The revised fees would finance about one percent of the total cost of the siting program.

**The Analyst recommends** that generators or the ratepayers bear the full cost of the siting program, rather than the General Fund. To back out the General Fund, the LAO recommends raising the application fee on generators, or increasing the per-kilowatt charge levied on all utilities.

In evaluating this recommendation, the subcommittee may wish to consider whether the siting program ought to be financed with application fees. For example, given the volatility in the number of

applications, if one applicant delayed until July 2003, the commission would face a half-million dollar deficiency in its budget.

If the subcommittee were to increase the charge on utility users, the rate would increase by about 10 percent.

**Staff recommend** that the subcommittee: a) eliminate the General Fund appropriation for siting and b) direct subcommittee staff to prepare legislation authorizing the commission to adjust the user fee annually to a rate equal to expected costs for the coming fiscal year. This action would be *in lieu* of the Governor's proposal to impose the \$25,000 fee. The statutory legislation can be discussed at the Open Items hearing.

## 8660 Public Utilities Commission

The commission regulates privately owned utilities, such as gas, electric, telephone and railroad interests. It regulates some passenger and household goods carriers. The commission's primary objective is ensure adequate facilities and services for the public at equitable and reasonable rates.

**Table 1**  
**Public Utilities Commission, Expenditures by Program**  
**2000-01 to 2003-03**  
(dollars in thousands)

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>Amt Change</u>	<u>% Change</u>
Regulation of Utilities	\$105,165	\$392,544	\$206,940	-\$185,604	-47%
Universal Service Telephone Programs		1,234,968	1,091,726	-143,242	-12%
Regulation of Transportation	12,981	15,034	14,565	-469	-3%
<b>Totals</b>	<b>\$118,146</b>	<b>\$1,642,546</b>	<b>\$1,313,231</b>	<b>-\$329,315</b>	<b>-20%</b>

## Consent Issue

**Require a Report on the Commission's Payphone Programs.** The PUC's Consumer Services Division administers three payphone programs: (1) the Public Policy Payphone Program places payphones in areas that would otherwise not be served; (2) the Payphone Service Providers Enforcement Program ensures payphones are in working order; and (3) the Telecommunications Devices for the Deaf Interim Placement Committee ensures the hearing impaired have access to communications devices in public places. In order to help the Legislature assess the effectiveness of these programs, the Analyst recommends that the Legislature adopt the following supplemental report language:

Proposed Supplemental Report Language:

## Item 8660-001-0491—Payphone Program

On or before December 1, 2003: the California Public Utilities Commission shall submit, to the Chairs of the Joint Legislative Budget Committee and the fiscal committees of both houses of the Legislature, a report that justifies its staffing needs for its public payphone programs based on actual workload data. In addition to the staffing levels of each program, this report should include the following information:

1. ***Public Policy Payphone Program.*** The number of applications received for new public policy payphones, the number of public policy payphones placed in California, the location of the public policy payphones, and the number of hours spent on each application and payphone placement case.
2. ***Payphone Service Providers Enforcement.*** The number of payphones inspected, the percentage of total phones inspected, the number of payphones not in compliance, the number of payphones disconnected, and the number of hours spent on each inspection and compliance case.
3. ***Telecommunications Devices for the Deaf Interim Placement Committee.*** The number of phones placed, the number of applications/requests for the placement of these phones, and the number of hours spent on each phone placement case.

Staff are not aware of any opposition.

## Budget Issue

***Reduce Funding for the “Green Team.”*** The budget proposes \$100,000 for funding a staff attorney dedicated to activities associated with the Green Team. The position is funded from special funds and is limited term. The Analyst believes that the workload associated with the Green Team does not warrant additional staff.

The commission staff indicate that although the Green Team’s workload may not warrant additional staff, the PUC’s overall legal workload has increased so significantly that it needs at least another attorney. The commission staff will provide detail to the subcommittee.

***Staff recommend*** deletion of the position and funding, pending receipt of the commission’s justification.

## 8665 California Consumer Power and Conservation Financing Authority (PA)

Senate Bill 6x (Burton), Chapter 10, Statutes of 2001, First Extraordinary Session, established the Power Authority (PA). The authority, its powers and responsibilities are detailed in Sections 3300 through 3384 of the Public Utilities Code. Specifically, it:

1. Authorizes the PA to finance the following with revenue bonds:
  - The construction of generation facilities (Sections 3350 and 3351),
  - Loans for the purchase of equipment, improvements and appliances with energy efficiency or renewable energy characteristics (Sections 3365 through 3367.5),
2. Requires the PA's operating budget be included in the annual budget act (Section 3345).
3. Requires the PA to submit to the budget committee an annual report on its activities and expenditures (Section 3346). The report is due January 1.
4. Requires the PA to report on its plan for financing resources investments (Section 3369). The report, entitled *Clean Growth: Clean Energy for California's Economic Future*, was submitted on February 15, 2002.

Last year, the Legislature authorized a \$10 million "start up" loan for the PA. In the current year, the Administration allocated \$4.5 million to the PA. The budget proposes allocating the balance. The loan is to be repaid from proceeds of bonds.

### Budget Issues

1. **Loan.** The authority expects to repay the \$4.5 million loan by June 30, 2003.

**Staff recommend** that the budget be amended to reflect the repayment.

2. **Budget.** The Public Utilities Code requires the authority to report its expenditures to the Legislature on or before January 1. Presumably, this report would help the Legislature evaluate current- and budget-year expenditures. The authority submitted this kind of information for the current year, as part of its November 19 letter on its start-up activities. However, the authority has provided no information about its intended spending in the budget year. Without justification for the budget appropriation, it is impossible for the Legislature to evaluate the budget proposal.

**Staff recommend** that the authority update its November 19 letter to reflect anticipated spending in 2002-03.

3. ***Department of Water Resources (DWR).*** Last year, the Legislature authorized the DWR to purchase power. This responsibility was considered a stop-gap response to the energy problem. Is it possible to shift DWR's electricity purchasing responsibilities to the authority?

***Staff recommend*** that the subcommittee staff be directed to consider which state entity should be charged, on a permanent basis, with purchasing energy. If staff develop a recommendation for shifting responsibility, it should report to the subcommittee on: (a) Trailer bill language to shift the responsibility for purchasing power from DWR to the authority, (b) Budget amendments to make the shift, and (c) An analysis of problems associated with making the shift.

## 8770 Electricity Oversight Board

When created, the EOB had oversight responsibilities over the operations of the Independent System Operator (ISO) and the Power Exchange (PX). In January 2001, the PX suspended operation of its markets and is now in bankruptcy. As a consequence, according to the EOB, the board "does not oversee the administration of these markets."

Accordingly, the specific work projects and relative importance among the subjects, according to board staff, has varied as events in the markets and operation of the grid have unfolded. Specifically, the board lists these activities as priorities:

1. Operation of the grid and bulk electricity markets.
2. Market structure, rules and market ratemaking.
3. Market behavior and actions by market participants.
4. Procurement of reliability services and the costs thereof.
5. Reliability standards and rules.
6. Transmission planning and grid expansion.
7. Transmission rates, costs, and scheduling requirements.

Legislation chaptered in the last two years has given the EOB new responsibilities, including:

- ***Petition the Federal Energy Regulatory Commission (FERC) on Specific Transmission Matters.*** SB 1388 (Peace), Statutes of 2000, requires the EOB to petition FERC for the recovery of certain expenses associated with replacing and expanding the electricity grid. The EOB shares this responsibility with the Public Utilities Commission.
- ***Investigate the Wholesale Market.*** SB 47 (Bowen), Statutes of 2001, authorizes the EOB to investigate any matter related to the wholesale market for electricity.



**Table 1**  
**Energy Oversight Board by Funding Sources**  
*(dollars in thousands)*

Funding Source	2000-01	2001-02	2002-03	\$ Change	% Change
General Fund	233	\$997	\$730	-\$267	-27%
PUC Utilities Reimbursement Account	\$1,797	3,012	3,017	5	0%
Energy Resources Programs Account	491	437	473	36	8%
Reimbursements		35		-35	-100%
<b>Totals</b>	<b>\$2,521</b>	<b>\$4,481</b>	<b>\$4,220</b>	<b>-\$261</b>	<b>59%</b>

## Budget Issue

The board's base budget assumes last year's workload. Given the evolution in the board's duties, it is not clear how the current-year budget should be modified to reflect the expected workload in the budget year. Committee staff have asked the board to justify the board's budget in light of anticipated workload. No information has been provided.

**Staff recommend** that the board's budget be deleted until the EOB submits a detailed budget reflecting the board's anticipated workload. If the budget justification is given to the committee by mid-April, the subcommittee could hear a proposal to reinstate funding at its Open Items hearing.